



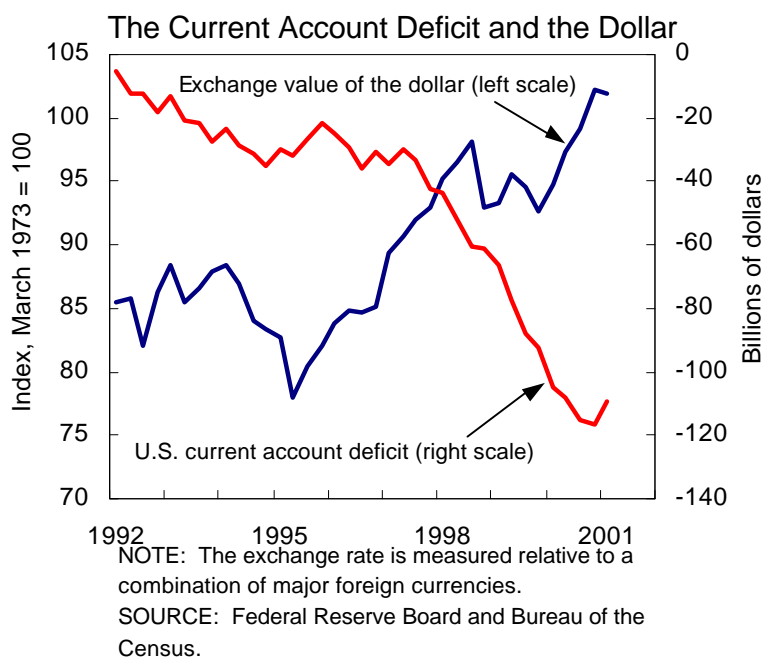
# WEEKLY ECONOMIC DIGEST

JOINT ECONOMIC COMMITTEE—DEMOCRATIC STAFF  
SENATOR JACK REED (RI)



June 26, 2001

## Trade Balance Signals Weakness Here and Abroad

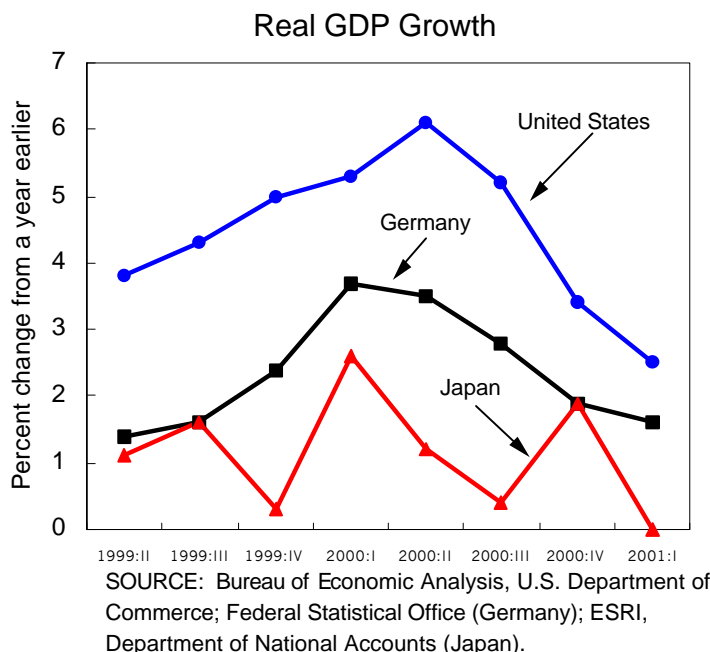


- **The trade deficit narrowed slightly.** The monthly trade deficit shrank slightly to \$32.2 billion in April. The current account deficit (a broader measure that includes not only goods and services but also incomes and transfers) shrank as well in the first quarter. Nevertheless, both deficits remained large. Any sustained reduction in the trade deficit is likely to require a decline in the dollar, which, over the past six years, has appreciated relative to other major currencies at an average annual rate of just over five percent.

- **Weak foreign economies hurt exports.** In April, U.S. exports of goods and services fell \$1.8 billion below their March level to \$86.9 billion. The Canadian and Mexican economies have slowed with the U.S. economy. Germany's economy has been slowing since early last year and has been weaker than the U.S. economy for some time. Japan's troubles are even more severe—many analysts believe Japan is again in a recession.

- **Slowing imports reflect domestic weakness.** Imports of goods and services fell more sharply than exports in April, dropping to \$119.1 billion. Declines in imports of capital goods accounted for the lion's share of the overall slowing in imports, reflecting the weakness of domestic business investment. Imports of consumer goods posted a more modest decline.

- **The stage is set for a Fed rate cut.** These and other symptoms of a weak economy, along with recent indications of low inflation, virtually guarantee a cut in rates by the Federal Open Market Committee this week.



ECONOMY AT A GLANCE	May	Apr	Mar	Feb	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000 Qtr 2	2000	1999
<b>Economic Activity</b>										
Real GDP (% growth)					1.3 <sup>*</sup>	1.0	2.2	5.6	5.0	4.2
Industrial Production (% growth)	-9.2	-7.0	-2.4	-4.7	-6.7	-0.9	3.5	7.9	5.6	4.2
Capacity Utilization(Level, %)	77.4	78.2	78.8	79.2	79.2	81.3	82.4	82.6	82.1	81.2
Civilian Unemployment Rate (Level, %)	4.4	4.5	4.3	4.2	4.2	4.0	4.0	4.0	4.0	4.2
Housing Starts (Thousands)	1622	1629	1592	1623	1627	1539	1505	1586	1575	1647
Real Disposable Personal Income (% growth)		.8 <sup>*</sup>	5.7 <sup>*</sup>	3.3 <sup>*</sup>	2.3 <sup>*</sup>	0.7	2.6	3.7	2.8	3.2
Retail Sales (% growth)	0.9	18.0	-4.7	0.8	5.2	0.5	4.6	1.4	7.6	9.1
Personal Saving Rate (Level, %)		-7 <sup>*</sup>	-6 <sup>*</sup>	-8 <sup>*</sup>	-9 <sup>*</sup>	-0.7	-0.2	0.3	-0.1	2.2
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)	4.9	3.7	1.2	3.7	4.1	2.9	3.5	3.0	3.4	2.2
Core CPI-U Inflation (% growth)	1.2	2.4	2.4	3.7	3.2	2.4	2.5	2.7	2.4	2.1
Compensation per Hour (% growth)					4.6	3.5	3.8	4.2	4.3	3.2
Output per Hour (% growth)					-1.2	2.0	3.0	6.3	4.3	2.6
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	3.6	3.9	4.4	4.9	4.8	6.0	6.0	5.7	5.8	4.6
T-Note Rate, 10-years (Level, %)	5.4	5.1	4.9	5.1	5.1	5.6	5.9	6.2	6.0	5.6
Federal Funds Rate (Level, %)	4.2	4.8	5.3	5.5	5.6	6.5	6.5	6.3	6.2	5.0
Dow Jones Industrial Avg (Index Level)	11105	10235	10081	10775	10513	10586	10882	10703	10735	10465

SOURCES: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

NOTES: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

\* Subject to revision this week.

### Major Economic News Due This Week:

- Durable Goods Orders, Inventories, & Shipments (Advance), May [Release: Tuesday, June 26, 2001]
- Federal Open Market Committee, [Tuesday and Wednesday, June 26-27, 2001]
- Personal Income, May [Release: Monday, July 2, 2001]